

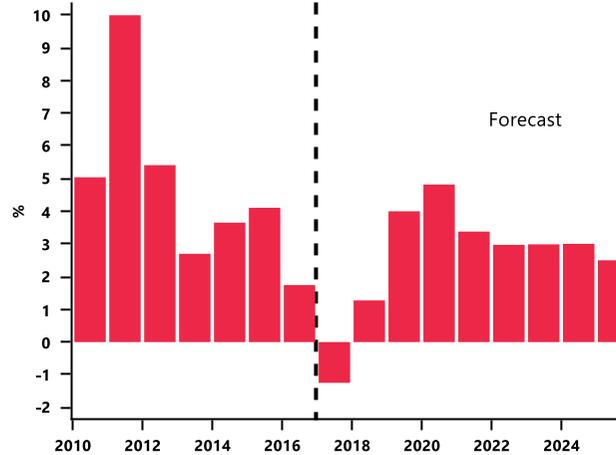
Saudi Arabia Capital Markets Key Indicators Q1 2018

April 2018

KEY HEADLINES

- GDP growth declined by 1.2% in 2017. It is expected to regain momentum in 2018 (+1.3%) and average 3% in the medium term. This will be likely driven by higher oil prices, a gradual strengthening in non-oil sectors and the anticipated counter-cyclical fiscal policies.
- CPI Inflation has jumped to nearly 3% YoY in February 2018, its highest level in more than 4 years. The rebound in inflation can be mainly attributed to the recently-introduced VAT regime and the cuts on energy subsidies.
- The latest reading of the PMI (52.8 in March 2018), points to a fall in the pace of expansion of the non-oil sector to its lowest levels since the survey began in August 2009. This is mainly attributable to weakening consumer demand. In contrast, the business optimism element of the PMI at 71.0 remains far above the 12-month average of 61.4.

FIGURE 1
Saudi Arabia GDP, YoY % Change

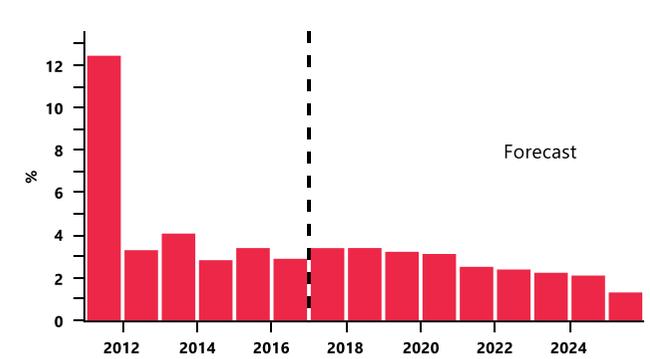


Source: Macrobond/ Oxford Economics



GDP growth declined by 1.2% in 2017. It is expected to regain momentum in 2018 (+1.3%) and average 3% in the medium term. This will be likely driven by higher oil prices, a gradual strengthening in non-oil sectors and the anticipated counter-cyclical fiscal policies.

FIGURE 2
Employment Forecasts, YoY % Change



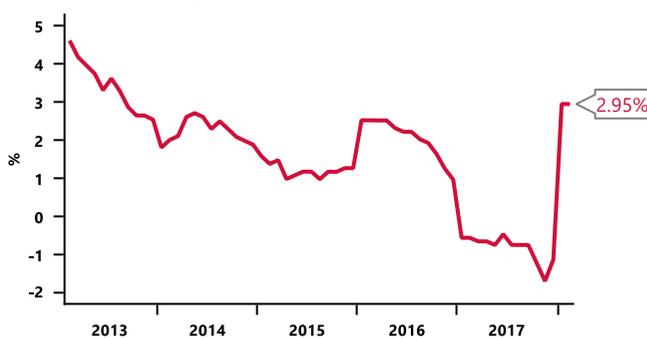
Source: Macrobond

	2017	2018	2019
Saudi Arabia Employment Forecasts (YoY % Change)	3.40	3.40	3.22



Employment growth is forecast to remain roughly stable over the next few years as Government efforts towards youth employment and participation of Saudi nationals' in the workforce are offset by restrictions and increase in fees on expatriate labour.

FIGURE 3
Inflation, YoY % Change



Source: Macrobond

	Latest February 2018	6 months ago	12 months ago
CPI Inflation (YoY %)	2.95	-0.76	-0.57



CPI inflation has jumped to nearly 3% YoY as of February 2018, its highest level in more than 4 years. This rebound can be mainly attributed to the recently-introduced VAT regime and the cuts on energy subsidies.

FIGURE 4
Oil Prices



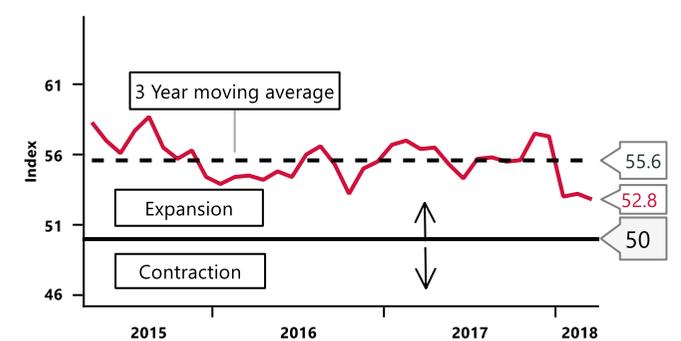
Source: Macrobond

	Latest March 2018	3 months ago	12 months ago
Oil Prices – Brent Crude \$	69.6	66.6	53.7



Oil prices have risen to \$69.6 pb as at March 2018, up from \$53.7 a year earlier - the highest price since November 2014. Increasing demand for oil and supply management by OPEC have underpinned growth.

FIGURE 5
Purchasing Managers Index



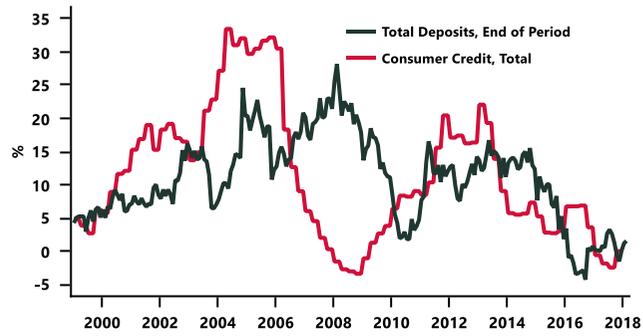
Source: Macrobond

	Latest March 2018	3 months ago	12 months ago
Composite PMI	52.8	57.3	56.4



The latest reading of the PMI points to a fall in the pace of expansion of the non-oil sector to its lowest levels on record, on dampening consumer demand. In contrast, the business optimism element of the PMI at 71.0 remains far above the 12-month average of 61.4.

FIGURE 6
Deposits and Loans, YoY % Change



Source: Macrobond

	1 Year % Change (Feb 2018)		1 Year % Change (Dec 2017)
Deposits	+1.6	Credit	0.0



In terms of lending to the private sector and deposits accumulation, the growth momentum remains lacklustre, pointing to the fact that banks remain challenged by muted credit demand and constrained market liquidity.

FIGURE 9
Nominal broad effective exchange rate index, The SAR's performance against key currencies



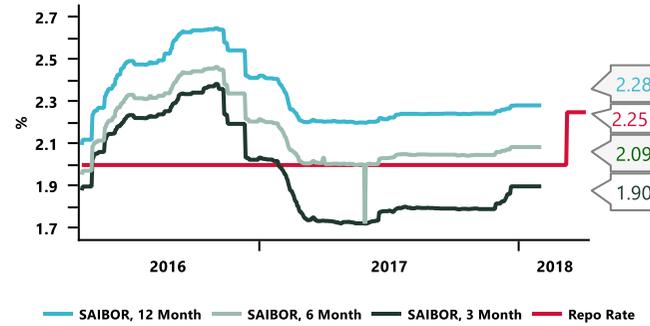
Source: Macrobond

	1 month	3 months	12 months
Effective Exchange Rate % Change as of March 2018.	-0.4	-1.9	-6.4



The SAR exchange rate index devalued 7.5% in 2017, echoing the weakening of the US Dollar. Q1 2018 data points to an ongoing devaluation trend.

FIGURE 7
Interest Rates



Source: Macrobond

	Feb. 05, 2018	3 months ago	12 months ago
3-Months SAIBOR(%)	1.90	1.79	1.98
6-Months SAIBOR(%)	2.09	2.05	2.16
1-Year SAIBOR(%)	2.28	2.24	2.37



Saudi Arabia is mitigating the effect of rising US rates on the SAIBOR, in an effort to strike a balance between boosting growth and averting capital flight that would put pressure on the currency peg.

FIGURE 10
Tadawul All Share Index Performance, 1 Year % Change

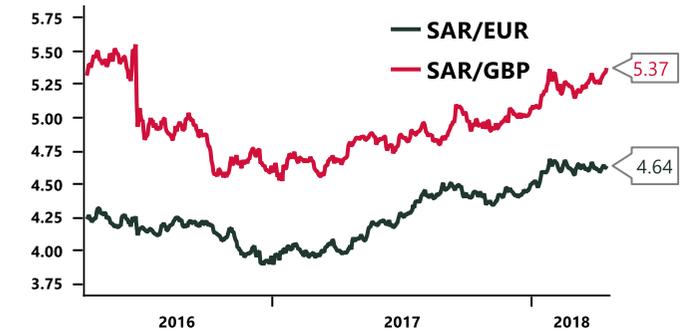


Source: Macrobond



The broad stock market index was up by 15.5% YoY as of April 16, 2018, signalling an improvement in investors' sentiment buoyed by higher oil prices and the expected inclusion in the FTSE Emerging Market, among others.

FIGURE 8
Foreign Exchange Rates



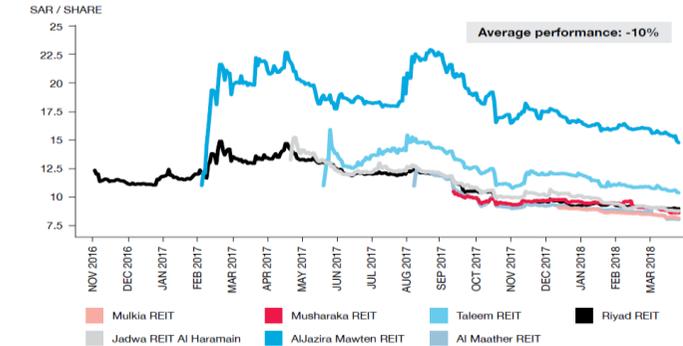
Source: Macrobond

	April 16, 2018	3 months ago	12 months ago
SAR to EUR	4.64	4.41	3.99
SAR to GBP	5.37	4.99	4.71



Positive economic data across the Eurozone has been strengthening the Euro against most currencies. Sterling continues to trade at its highest level against the US dollar since the EU Referendum vote.

FIGURE 11 – Chart of the month
Daily closing price of selected listed REITs¹ from listing date to March 30, 2018



Source: Macrobond Note: (1) only REITs listed before 2018 were included in this graph



Following initial buoyancy, we have seen price moderation since late 2017. Most REITs have pared back early gains and are currently trading below listing price.



RESEARCH

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